

Assessing Foreign Military Sales Transportation Costs

By

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INTRODUCTION

The Arms Export Control Act (AECA) requires that the Department of Defense (DOD) recovers the full cost for the sales of defense articles and services to foreign countries. Full cost recoupment, as it relates to transportation, requires that DOD charge the customer for transportation services that are not paid for directly by the customer. The purpose of this article is to identify several DOD formulas and procedures which have evolved to assess transportation costs incident to the sale of a defense article or service.

STANDARD TRANSPORTATION RATES

The primary method for assessing transportation costs is to use standard percentage rates applied against the unit price of the item. The standard rates associated with unique Delivery Term Codes (DTC) increase as the item is moved from its CONUS point of origin to the furthest possible point, the overseas inland destination. Table 1 is a partial list of associated transportation codes, movement points, and standard rates.

TABLE 1
Standard Transportation Rates and Related Codes

DOD Movement: Point of Origin to Destination	None CCBL	CONUS Port of Exit	CONUS Port Aboard Vessel	Port- to-Port Discharged	Sealift	Overseas Port Dis- charged	Overseas Inland Des- tination
Delivery Term Code	4	2,3,5	8	--	6	9	7
Transportation Bill Code (TBC)	D/K/L	A/B/E	H/U	J	F/X	C/V	G/Y
Transportation Generic and Percentage	--	L1A/D/E 3.75%	L2B 2.5%	L1B 4/6%	L1B 4/6%	L2C 1%	L1F 3%
<u>Area 1</u> Standard Rate Europe, Latin America, Mediterranean	0	3.75%	6.25%	7.5%	10.25%	11.25%	14.25%
<u>Area 2</u> Standard Rate Newfoundland, Labrador, Thule, Iceland, South America, Far East, Africa, Near East	0	3.75%	6.25%	9.5%	12.25%	13.25%	16.25%

When materiel is reported delivered on a DD-COMP(M) 1517 performance report to the Security Assistance Accounting Center (SAAC), these standard rates are applied against the unit price of the item. When the unit selling price is over \$10,000, 25 percent of the standard rate will be applied to the amount over \$10,000 to determine the final transportation cost.

The DTC appears in Block 20 of the DD Form 1513 and is carried over into card column (CC) 34 of the MILSTRIP document number. Thus, the DD Form 1513 transportation instructions are communicated to depot shipping activities. However, since the DTC is a fixed part of a MILSTRIP requisition, a method is needed to notify SAAC of unplanned changes in the mode of shipment that may occur before the final delivery of an item.

The method used by the implementing agencies (IAs) to notify SAAC of changes in shipment and thereby to change a standard percentage rate is through the performance reporting system, i.e., the DD-COMP(M) 1517 Report (hereafter referred to as the DD 1517 for sake of brevity) which allows reporting of the Transportation Bill Code (TBC). After delivery occurs the IAs are required to submit a DD 1517 to SAAC within 30 days. At that time, the IA can insert in CC 59 of the DD 1517 the TBC that reflects the most current method of shipment. The TBC becomes important to the FMS customer because it is carried over onto the quarterly FMS billing statement "Delivery Listing". The TBC alerts the customer to changes in preplanned shipping instructions. In addition, the TBC will cause the generation of the standard computed transportation costs that will be shown under "accessorial transactions" on the delivery listing, broken out by each "Generic Code," i.e., DOD movement points from origin to final destination. Also, the "Type of Cost" field in this section of the delivery listing will state "computed" to indicate that standard percentage rates have been used to compute the reported transportation costs.

The standard transportation rates used by SAAC during billing are the same rates used to estimate transportation costs during DD Form 1513 development entered into block 25 of the DD Form 1513.

Most below-the-line (block 25 of DD Form 1513) transportation costs that are collected by SAAC from the customer, by assessing standard percentage rates, are placed in a transportation cost clearing account. This account is then used to pay actual transportation bills submitted by DOD shipping activities to SAAC. A complete description of these transportation codes and rates are contained in Chapters 7 and 8 of the *Foreign Military Sales Financial Management Manual* (DOD 7290.3-M). Chapter 7 paragraph 70403.B. cites a specific DTC computational example.

TRANSPORTATION COST LOOK-UP TABLE

The standard rates identified in the previous paragraphs have been established for many years and recover DOD transportation costs on an average basis. However, there are individual items for which the standard rate may be inequitable causing the assessment of disproportionately high transportation charges. These inequities will most frequently occur when low-density, high-value materiel is shipped, such as the TOW, Sidewinder, or Harpoon Missiles.

The Defense Security Assistance Agency (DSAA) has recognized that for some end items the standard rates when applied to selected end items are disproportionate to actual DOD expenses. Therefore, in order to correct the problem DSAA established transportation look-up table procedures in August 1983. The concept behind the transportation look-up table is to have the military departments develop average actual costs for transporting selected end items in the Defense Transportation System. A table of estimated actual costs is maintained and used by SAAC to assess transportation costs when the end items are delivered and performance is reported (via DD 1517's) to SAAC. The table is updated with new items and costs each fiscal year by the implementing agencies. The following is an example of a Navy item in the transportation look-up table:

<u>NSN</u>	<u>Item</u>	<u>DTC 6</u>	<u>DTC 8</u>	<u>DTC 9</u>
1356-01-063-3274	MK-46 Torpedo	\$5,345	\$5,165	\$7,140

Note: DTC 6 = FOB Overseas Port of Discharge. U.S./DOD is responsible for transportation from CONUS point of origin to and including ocean transportation to the overseas port of discharge. Recipient country is responsible for vessel discharge, port handling and subsequent arrangements and costs.

DTC 8 = FOB Vessel--CONUS Port of Exit. U.S./DOD is responsible for transportation from CONUS point of origin to and including unloading, handling, and storage aboard vessel at port of exit. Recipient country is responsible for ocean transportation and subsequent arrangements and costs.

DTC 9 = FOB Port of Discharge (Landed). U.S./DOD is responsible for transportation from CONUS point of origin to and including vessel discharge and port handling at overseas port of discharge. Recipient country is responsible for loading on inland overseas carrier equipment and for subsequent arrangements and costs.

SAAC will match the national stock number (NSN) of the DD 1517 report to the NSN on the table and use the applicable DTC to determine at the correct transportation cost.

The complete transportation table and related procedures were released by DSAA in October 1986 and will be included in a *Security Assistance Management Manual (SAMM)* change scheduled to be released in the first quarter of calendar year 1987.

In order to validate costs, the DD Form 645, FMS Quarterly Billing Statement, is designed to alert the customer when the look-up table is being used. In the DD Form 1513 preparation phase, the look-up table costs are to be included in block 25 of the Form. Notes attached to the DD Form 1513 should indicate that block 25 transportation costs reflect look-up table costs vice standard rates. Use of the look-up table also will be reflected in DD Form 645 quarterly FMS billing Delivery Listing. Items reported on the Delivery Listing using the table costs will have a Transportation Bill Code of "W" and the actual table transportation costs will be reflected under "Accessorial Transactions" against generic code "L10." The TBC "W" is not in the DOD 7290.3-M and is not contained in the DD Form 1517 report. It is a SAAC generated code which allows the customer to identify transportation look-up table transactions on the DD Form 645 Delivery Listing.

"NX" - DD FORM 1517 TRANSACTIONS FOR ACTUAL TRANSPORTATION COSTS

There may be instances when the application of the standard rates will result in a significantly different transportation cost than the actual transportation cost would dictate. If no other procedures apply, such as the look-up table, then the *Foreign Military Sales Financial Management Manual* (DOD 7290.3-M) authorizes, on an exceptional basis, the billing of actual transportation costs on the DD 1517. A completed example of an "NX" transaction can be found in Table 803-20, Chapter 8, of the DOD 7290.3-M. Actual or estimated actual billing of below-the-line transportation costs is accomplished by the military departments through the use of a DD 1517 performance report with a document identifier of "NX" (CC 1 and 2). The corresponding materiel delivery DD 1517 will contain a TBC of "L" to indicate that actual transportation costs are being applied by the military department. The "NX" card can also be used to bill actual packing, crating, and handling (PCH) costs. Use of "NX" transactions must be approved by the Office of the Assistant Secretary of Defense (Comptroller) [OASD(C)] on a case-by-case basis.

The customer can identify these "NX" transportation costs in the FMS Delivery Listing "Accessorial Transactions" section by the presence of complete fourteen-position document numbers rather than the more routine partial document numbers, that will match the document number of the materiel delivery. In addition the type of cost indicator will state "actual" rather than "computed."

ABOVE-THE-LINE TRANSPORTATION COSTS

The methods discussed above identify different procedures for applying below-the-line transportation costs. During LOA preparation it is possible to add a separate line item to the DD Form 1513 to estimate and ultimately bill actual above-the-line transportation costs. Above-the-line actual transportation costs can either be billed (DD 1517) as part of the total materiel or overhaul cost, or as a separate billing for transportation costs only.

When transportation costs are above the line and thus are being billed by the military department rather than SAAC, reimbursement for the costs goes directly to the military department and not through SAAC's transportation cost clearing account. Therefore, transportation operating agencies should not be submitting their shipping bills (SF 1080s) to SAAC nor should associated GBLs cite the FMS Trust Fund (97X8242) for reimbursement in these instances. This applies to shipment of government-furnished equipment/materiel (GFE/M) to production facilities, and repair and return line item costs.

Transportation costs that are billed above-the-line are Special Assignment Airlift Mission (SAAM) flights. SAAM flights are normally identifiable as a separate line item on the DD Form 1513. Any other type of above-the-line transportation costs requires DSAA and OASD(C) concurrence during the LOA preparation timeframe.

CONCLUSION

The foregoing discussion is a broad overview of the methods and procedures for assessing transportation costs on FMS cases. An overview such as this cannot fully reflect the complexities encountered in trying to create and apply "standard" transportation cost procedures that must be compatible on a multitude of inter- and intra-organizational levels. FMS transportation methods represent a dynamic subject area, and studies are currently being conducted to simplify procedures and to ensure accurate cost assessments. At present, the reader can best keep abreast of current procedures and future changes through careful examination of periodic updates to the SAMM (DOD 5105.38-M) and DOD 7290.3-M.

ABOUT THE AUTHOR

Mr. Campanell has been an instructor at DISAM since 1983. In 1972 he received a bachelor's degree in Business Administration from Upsala College. His areas of expertise on the subject of security assistance are FMS process and financial management.